Why Globally GDP, Trade, Profits, Wages, Employment Decrease and Why Poverty Increases?

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The purpose of the paper is to propose a scientific explanation of why GDP, trade, profits, wages and employment have been globally decreasing and why poverty has been globally increasing between the 2nd quarter of 2008 and the 3rd quarter of 2009. I explain these facts in a scientific manner, that is, by deriving the present state of the global economy (crisis) from the principles of the present global economy (predominately organized in a capitalistic manner). I therefore prove that the crisis necessarily follows from the way the present global economy functions. I argue that the reason for the crisis is the fundamental contradiction between the purpose of companies (increasing profits) and necessary ways in which companies try to increase profits, and that the consequences of this fundamental contradiction are triggered by a general lack of credits.

Key words: global economy, GDP growth, profit, credits, poverty

Introduction

The most important economic issue for the leaders of the world's economically most powerful states is how to *restore* economic growth in their economies. USA President Barack Obama's *central* focus is on 'stimulating economic recovery and helping America emerge a stronger and more prosperous nation' (see http://www.whitehouse.gov/issues/economy). The *most important* goal of the new German government is to restore economic growth. Angela Merkel: 'Only growth creates trust by people' (Open Report 2009). President of the European Commission José Barroso stated that the *priority* of the EU is to restore economic growth: 'Our short term actions must lay the basis for sustainable and equitable growth in future' (European Commission 2009).

In the paper, I first present a theoretical background on business cycles, second, I present the most important data that show global decrease in GDP, trade, profits, employment, wages, and global increase in poverty between the 2nd quarter of 2008 and the 3rd quarter of 2009, and third, I scientifically explain these data (facts), i. e.

I argue why this has been happening. The purpose of the paper is to propose a correct and valid explanation of why between the 2nd quarter of 2008 and the 3rd quarter of 2009, there was a global decrease in GDP, trade, profits, employment, wages, and global increase in poverty.

Theoretical Background

General increases (conjunctures, booms) and subsequent *general decreases* (crises, depressions, recessions) in production or economic activity (e. g. general increase and subsequent general decrease in growth rates of real gross domestic product) over several months or years are known as business (or economic) cycles. It is generally accepted that these cycles do not follow a mechanical or predictable periodic pattern. The business cycle phenomenon has attracted much attention among economic theoreticians and the wider public at least since the middle of the 19th century (e. g. Karl Marx, Clement Juglar).

Business cycles are a *fact* and what interests us as scientists is the question of *why* business cycles (especially crises) occur. We therefore search for a *correct and valid explanation* of business cycles. Since the middle of the 19th century, there have appeared many theories on the supposed reasons for business cycles. In the orthodox economic theory, economists have been divided into two camps: some argue that causes for crises are exogenous to the market economy (e. g. State, regulation, trade unions, monopolies, technology shocks),[1] while others (mainly Keynesians) argue that causes are endogenous (e. g. underconsumption, paradox of thrift, distribution of income between profits and wages). Beside the orthodox economics, there is a long tradition of several heterodox economic theories that have proposed various explanations of business cycles. To name only a few, Karl Marx (1890) stated that alternation of prosperities and crises is like a natural law and blind necessity of capitalism. Marxist economists think that an economy based on production of commodities to be sold on the market is intrinsically prone to crises. Joseph Schumpeter stated that cycles are the essence of capitalism and that from this it follows that depressions are inevitable and even beneficial phases of its development (McCraw 2006, 234). In the Austrian school of economics, Ludwig von Mises (1996) argued that crises are a necessary result of attempts to lower the gross market rate of interest by means of credit expansion. Friedrich Hayek (1933, 140) said that changes in the volume of money, which is always recurring, cause misdirection of production and therefore crises. Murray

Rothbard (2000) argued that cycles are generated by monetary intervention in the free market, specifically bank credit expansion to business.

These serious and comprehensive theoretical strugglings to understand the essence of business cycles have always been accompanied by many public attempts to explain these cycles, especially the negative part of them, i. e. crises, depressions, since this part of the cycle is most harmfully experienced by the majority of people (general increase in poverty). I propose to say that the essence of the majority of these public attempts at explaining the crises is *moralization* that posits the greed and irresponsibility of managers and politicians as causes for crises (in the following, it should be clear why this is false).

The Present Economic Crisis: Facts

The most important data that are available to us, show the following state of the present global economy.

In the group of OECD countries, GDP constantly decreased from the 2nd quarter of 2008 to the 1st quarter of 2009. This was the *biggest* fall of GDP growth in OECD, since OECD began collecting and publishing data on GDP in 1960. GDP growth in the 1st quarter of 2009 was −2.2%, while GDP growth in the 2nd quarter of 2009 was 0.0%. In the 1st quarter of 2009, for example, Germany had −3.5% GDP growth, USA had −1.6% GDP growth, Japan had −3.3% GDP growth, the group of economically most powerful states G-7 had −2.2% GDP growth (OECD 2010a). EU-27 group had −4.6% GDP growth in 2009 (Eurostat 2010). GDP growth in developing countries was expected to be less than 2% in 2009 – growth in 2008 was 8% (The World Bank 2009b). In China, for example, real annual GDP growth rate constantly decreased between 2007 (11.4% growth) and 2009 (8.7% growth), while between 1999 and 2007, real annual GDP growth rate was almost constantly increasing in China (http://www.chinability.com/GDP.htm). Also in India, for example, GDP quarterly growth rate constantly decreased between January 2008 (9.7% growth) and July 2009 (5.8% growth) (TradingEconomics 2010). Prior to 2008, China and India were among the fastest growing economies in the world.

From December 2008 to August 2009, exports of commodities in OECD decreased – exports growth was negative. In the beginning of 2010, negative exports growth was expected in the biggest OECD countries (OECD 20010d). In developing countries, exports are decreasing. Private capital flows were expected to decrease from 1 trillion USD in 2007 to 530 billion USD in 2009. From the 3rd quarter of 2008 to the 2nd quarter of 2009, foreign direct investments and short-term credits decreased globally. Global trade in 2009 was expected to decrease (for 10%) – for the first time since 1982 (The World Bank 2009b).

From the 2nd quarter of 2008 to the 3rd quarter of 2009, many world's largest companies (in all economic sectors) sold significantly less of their commodities than these companies had planned and expected. In the same period, profits of these companies also decreased significantly (e. g. Daimler AG, BMW, Toyota, Ford, General Motors, Chrysler, Sony, Hitachi, Lm Ericsson AB, Nokia, Royal Bank of Scotland, AIG, UBS AG, Lloyds Banking Group).

For about half of 35 countries, for which data on wages are available, ILO concluded that in the 1st quarter of 2009, real monthly wages in these countries decreased compared to average wages in 2008. For a sample of 53 countries, for which data on wages are available, ILO concluded that growth of real average wages in an average country in this sample decreased from 4.3% in 2007 to 1.4% in 2008 (ILO 2009a). Between 1996 and 2008, labour productivity in OECD *constantly increased* – on average 1.9% annually (OECD 2010c). Among ten G-20 countries, for which data on wages are available, growth of real average wages in an average country in this group decreased from 1% in 2007 to 0.2% in 2008.

From the 1st quarter of 2008 to the 2nd quarter of 2009, unemployment in OECD constantly increased – from 5.68% to 8.31% (OECD 2010b). From October 2008 to September 2009, unemployment in EU-27 also constantly increased – from 7.3% to 9.2% (Eurostat 2009). The International Labour Office expected a dramatic increase in unemployment: 'In 2009, the proportion of people in vulnerable employment – either contributing family workers or own-account workers who are less likely to benefit from safety nets that guard against loss of incomes during economic hardship – could increase considerably, in the worst case to reach 53% of the employed population' (ILO 2009b).

ILO reported that in 2009, 200 million workers, mostly in developing countries, could be in extreme poverty because of decrease in GDP growth, decrease in profits of companies, decrease in production and decrease in real wages. ILO expected that in 2009, the number of working poor – people who do not earn enough for their families to get more than 2 USD per person per day (poverty limit) – may increase to 1.4 billion (ILO 2009b). The World Bank expects that 'as many as 90 million more people will be living in extreme poverty, on less than 1.25 USD a day, by the end of 2010' (The World Bank 2009a). Developing countries have recently also experienced food and fuel crises which have caused *millions* of people to be in poverty and hunger – between 130 and 155 million people are in *extreme poverty,* according to the World Bank's estimates. Another *44 million children are malnourished.* Decrease in credits and GDP growth will decrease government revenues and their investments into education, health and gender goals, as well as the infrastructure expenditures needed to increase GDP growth. Each 1% decrease in GDP growth could trap *another 20 million* people in poverty (The World Bank 2009b).

The most important data on the state of the present global economy thus show, that:

- from the 2nd quarter of 2008 to the 3rd quarter of 2009, GDP in OECD significantly and constantly decreased (in developing countries, GDP growth decreased significantly in 2009 compared to 2008),
- in 2009, international trade (exports of commodities, private capital flows and foreign direct investments) globally decreased,
- in 2009, many world's largest companies booked huge or even record sales losses and profit losses,
- from the end of 2007 until 2010, growth of real average wages was constantly decreasing globally,
- the number of working poor is increasing,
- the number of unemployed people has been globally increasing (in OECD constantly from the 1st quarter of 2008 until 2010),
- the number of people, living in (extreme) poverty, has been globally increasing.[2]

These are *facts* and they are generally known as an *economic crisis.* The purpose in the following is to *explain* these facts, that is, to argue *why* this has been happening, why this economic crisis has occurred.

Explanation of the (Present) Economic Crisis

A starting point of the explanation is a thought by two influential American economic scientists Burns and Mitchell[3] (1946) on business cycles: 'He who would understand business cycles must master the workings of an economic system organized largely in a network of free enterprises searching for profit. The problem of how business cycles come about is therefore inseparable from the problem of how a capitalist economy functions.' Since the present global economy is predominately organized in a *capitalistic* manner, I therefore explain, in the following, some *principles* of how capitalism functions and I *illustrate* (not prove) these principles with some important *concrete examples* (concrete examples do not prove principles/laws, they illustrate them, and it is principles that explain concrete examples). Based upon these principles, I try to derive/prove the *necessity* of crises in capitalism, and I therefore try to show that the present crisis (global decrease in GDP, trade, profits, employment, wages, and global increase in poverty) is a *necessary consequence* of how the present global economy functions. Since this is a *theoretical* paper (explanation of facts), and not an empirical paper (description/interpretation of empirical findings), the following explanation is necessarily *concretely abstract and general*. The 'method' used in the following is thus explaining, proving, deriving.[4]

Principles and Contradictions

In the present global economy, the fundamental and predominating purpose of companies and their state and private owners is to *unconditionally, constantly and limitlessly increase profits, measured in monetary units,* i. e. to make more money out of invested money as much as possible, to increase the market value of investors/owners' investments.[5] Companies have *other goals* as well – for example, customer satisfaction, care for employees, protection of natural environment, social responsibility. However, all these other goals are *subordinated* (they are *only means*) to the fundamental goal of making profits. For example, the fundamental and predominating purpose of ExxonMobil (today's largest company in the world by market value) in 2003 was to sustain and improve company's profitability, to create long-term, sustainable value and growth for shareholders, and to sustain general economic growth (ExxonMobil 2003). In 2007, ExxonMobil remained committed to growing long-term value for its shareholders (ibid. 2007). In 2009, ExxonMobil continued to focus on long-term growth in shareholder value (ibid. 2009).

Companies increase profits by trying to sell as many of their commodities as possible on the market for the highest price possible, while in producing commodities, companies try to minimize as much as possible all the costs that are necessary for producing commodities (see GegenStandpunkt 1983). Between 1998 and 2008, the average annual GDP growth in the OECD area was 2.3% (OECD 2009). So, during a decade prior to the present economic crisis, companies did actually (between 2004 and 2007 even continuously) increase their value added. Forbes' lists of the world's largest and most successful companies (Forbes 2007) show that between 2003 and 2007, companies were generally making profits. In the pre-crisis period, companies such as ExxonMobil (2007), for example, were successful in reducing their labour and production costs, not in absolute terms, but relative to the total income from sales of their commodities. If companies had not been successful and efficient in cost reduction, then they would not have made (sometimes even record) profits (e.g. Shell, Nestlé, Chevron, ConocoPhillips, Apple).

Companies increase profits by *competing* (enforcing themselves) on the market against other companies, whose purpose is also to increase their profits.[6] For example, Dell competes on the market against its immediate competitors, such as Hewlett-Packard, Sony, Apple, Acer, Asus, Lenovo, Toshiba, whose fundamental purpose is to make profits.

Companies increase profits by *unconditionally and constantly inventing, developing, producing, and offering/selling new or improved commodities on the market.* Market competition/struggle forces companies into unconditional and constant invention and development of new or improved commodities. New or improved commodities can be a *consequence* of the development and use of new and more productive tools and processes, and vice versa, new or improved commodities can *cause* development and use of new and more productive tools and processes. A company that first starts selling new or much improved commodities on the market, sells these commodities at a higher price than older and lower-quality commodities, and because of the higher price (value added) of new or much improved commodities, this company increases profits. However, when its competitors start selling the same or even more improved commodities as well, then the comparative newness and quality advantage of this company disappears. Market competition then forces companies to increase their productivity still more and thus lower prices of these new or much improved commodities. The result is that companies constantly sell new or much improved commodities (for development of which more and more invested money is necessary) at the same price as commodities that were produced and sold at the previous lower levels of newness, quality and productivity. But this is *in contradiction with* the fundamental purpose of companies – that is, increasing profits. For example, based on a Bureau of Labor Statistics comparison of like products and services between August 1998 and August 2008 (pre-crisis period), there were at least seven groups of commodities (produced by many immediate competitors) that were (and possibly are) comparatively cheaper in 2008 than they were in 1998: phones, electronics, footwear, new vehicles, toys, apparel and watches. Prices of these commodities actually decreased (in electronics substantially decreased) between 1998 and 2008, despite continuous innovations and improvements in the quality of these commodities. If the price remains the same and the quality improves, that effectively decreases the price (MacDonald 2008).

Market competition also forces companies into *unconditional and constant development and use of more productive (new) tools and processes.* A company that first starts using more productive tools and processes is the first to start reducing its production costs. Because of reduced production costs, this company then offers and sells its commodities on the market at a lower price than its immediate competitors. This company thereby forces its competitors out of the market. And because of increased sales (increased market share), this company increases profits. However, when its competitors start using the same or even more productive tools and processes as well, then the comparative cost (and consequentially price) advantage of this company disappears and its profits thereby decrease. This market competition constantly causes reduction of prices of commodities that are produced and offered/sold on the market by companies. But this constant forcing to reduce prices of commodities, that are sold by companies, is *in contradiction with* the fundamental purpose of companies – that is, increasing profits. For example, prior to 2008 (pre-crisis period), Exxon Mobil managed to keep cash operating costs at refineries below the industry average. Exxon achieved industry-leading unit cost performance by inventing and using its leading-edge technology. By doing so, Exxon managed to achieve energy and cost efficiencies that offset much of the inflationary pressures and expenses related to operating facility improvements, new process units, and production growth. Exxon reduced costs also by economies of scale that were made possible by new leading-edge technology and greater productivity (ExxonMobil 2007).

Companies increase profits by *unconditionally and constantly investing more and more money* in development and use of more productive means of production, in order to make bigger (or at least the same) profits compared to previous productivity levels. However, each productivity level in companies is only a starting point for achieving the next levels of still greater productivity. Cost and productivity competition between companies thus, on one hand, increases the amount of money that companies invest into increasing productivity, while on the other hand, increasing productivity reduces prices of commodities on the market. But this is *in contradiction with* the fundamental purpose of companies – that is, increasing profits. For example, between 2003 and 2007 (pre-crisis period), Exxon Mobil continuously invested more and more money into research and development of new leading-edge and cost-reducing proprietary technology. The company is a recognized industry leader in the application of cost-effective technology for enhanced oil recovery (ExxonMobil 2007).

Companies increase profits by *making labour that is necessary for producing commodities more productive and cheaper* by means of unconditional and constant development and use of more productive (new) tools and processes. By increasing productivity of tools and processes, companies need less and less workers for producing the same amount of commodities, and companies therefore dismiss redundant workers, because tools and processes are more productive. Companies try to motivate those workers that remain and continue working in companies to constantly increase their productivity – to make more and more commodities in the same amount of time, and for the same wage. By constant increasing of productivity of their means of production, companies thus decrease their labour costs (wages) by employing less and less workers and by producing more and more commodities with the same amount of workers. This implies that there is less and less labour included in a commodity unit and that companies save more and more money on the paid labour. By decreasing their labour costs (wages), companies thereby also decrease their production costs. Increasing the productivity of means of production thus decreases labour share in produced commodities, it decreases working time, it decreases wage labour that is delivered in a company. However, this delivered labour is the measure of monetary wealth – this labour is substance of prices and profits. And this implies that unconditional and constant increasing of productivity of means of production unconditionally and constantly reduces the source (wage labour) of commodity prices and consequentially profits. But this is *in contradiction with* the fundamental purpose of companies – that is, increasing profits. For example, between 2001 and 2007, Exxon Mobil constantly decreased the number of workers, despite increasing its production, sales and net income in the same period (ExxonMobil 2007). Between 1996 and 2008 (pre-crisis period), labour productivity in OECD constantly increased – on average 1.9% annually (OECD 2010c).

Companies increase profits by *decreasing labour costs (wages) in relation to monetary value that is produced by workers in companies.* The amount of money that workers receive as a wage for producing commodities in companies is always less than the amount of money that companies receive by selling commodities on the market (monetary value that is being made by wage workers). Workers can therefore never buy all commodities that were produced by workers in companies. The purchasing power of workers is always less than a monetary value of commodities on the market. Workers' wages do not therefore increase profits of companies. And companies increase profits by decreasing labour costs (wages). But this is *in contradiction with* the fundamental purpose of companies – that is, increasing profits. For example, between 1995 and 2007 (pre-crisis period), each additional 1% in the annual GDP per capita growth led to an average of only a 0.75% increase in annual growth of wages. As a result, in almost three-quarters of countries worldwide the labour (wages) share in GDP has decreased. Between 2001 and 2007 inflation was low and the global economy grew at a 4.0% per year, while wages grew by less than 2% per year in half of the world's countries. In Germany and in the USA (developed countries), the difference between highest and lowest wages has increased most rapidly. Based on an analysis of wages around the world in recent years, the ILO reports show that while wage growth was smaller than GDP growth during conjunctures, wage decreases were larger than GDP decreases during recessions. Between 1995 and 2007, for each 1% decrease in GDP per capita, average wages decreased by 1.55%. In recent years, minimum wages around the world have been reactivated to reduce social tensions resulting from increasing income inequalities (ILO 2008).

Companies increase profits by *selling more and more commodities on the market.* However, conditions of selling commodities on the market are not the same as conditions of producing commodities in companies. Conditions of selling commodities on the market are determined (limited) in relation to the relative size of a market for particular commodities and in relation to solvent needs (purchasing power). Conditions of producing commodities in companies, however, are determined (limited) by availability of materials and energy sources and by productivity of tools, processes and labour. Unconditional and constant increasing of productivity of means of production in companies implies that workers in companies produce more and more commodities, whereby companies (based on market analyses) anticipate and expect profitable selling of these commodities on the market. Companies calculate their profits *in advance* – profits are *already calculated in* production of commodities in companies, companies *exactly plan* their future profits. Companies also have *middle-term plans* on *how future profits will be reinvested.* Companies anticipate and expect an increasing amount of sales, whereby they do not consider the limitations of purchasing power (solvent needs). Companies try to profitably exploit a purchasing power that exists, but companies do this in such a way, as if this purchasing power was unlimited. In their production and selling of commodities, companies always presuppose that there is a purchasing power that can buy more and more commodities that are being offered on the market by companies. However, since companies buy commodities from their suppliers and pay off wages to their workers, companies themselves create purchasing power. And companies create purchasing power by trying to extort the lowest prices of commodities as possible by their suppliers and by paying off the lowest wages as possible to their workers. Companies thereby reduce purchasing power, for which companies always presuppose that it exists on the market in sufficient (unlimited) quantity, and upon which their profits depend. But this companies' reduction of purchasing power is *in contradiction with* the fundamental purpose of companies – that is increasing profits (see GegenStandpunkt 1983, 1992). For example, in 2007 (just prior to the present crisis), ExxonMobil predicted and anticipated an average 3% continuous annual growth of worldwide economic output between 2005 and 2030. ExxonMobil also predicted and anticipated an average 1.3% continuous annual growth of world energy demand in every economic sector between 2005 and 2030. However, from the 2nd quarter of 2008 to the 3rd quarter of 2009, GDP in OECD significantly and constantly decreased (in developing countries, GDP growth decreased significantly in 2009 compared to 2008), which proved ExxonMobil predictions on continuous worldwide economic growth false, despite the fact that ExxonMobil's projections were a result of an ongoing process that has been conducted for decades – these results (now obviously false) underpinned ExxonMobil's long-term strategies and investment plans. In 2009, ExxonMobil's net income, sales, operating revenue and earnings per common share substantially decreased (ExxonMobil 2009)

So, based upon this analysis we conclude that increasing of companies' profits includes *a contradiction between the fundamental purpose of companies* (increasing profits, measured in monetary units) *and necessary ways, in which companies try to increase profits* (market competition forces companies to operate in this way) – *these ways are necessarily forcing profits to decrease.*

Credits: A Decisive Means of Increasing Companies' Profits

Yet despite the contradiction between the purpose of increasing profits, and ways in which companies try to increase profits, companies still increase profits. Despite competitors on the market and despite limited purchasing power, companies still increase profits. But how is this possible? Companies increase profits by using *credits* (money, which is not owned by a company, but is only borrowed from banks, states, other companies, other institutions or individuals, or, companies issue new shares, through which they get additional money for investments) as a means of increasing productivity of means of production and labour, as a means of developing new or improved commodities and as a means of increasing the amount of commodities sold. And *at the same time,* credits also function as a means of increasing purchasing power (solvent needs) of companies, workers, states and other institutions. By using credits, companies thus on one hand increase demand for commodities, they increase productivity of means of production and labour still faster, they develop new or improved commodities, and they produce still more commodities. By using credits, buyers of commodities on the other hand also increase demand for commodities – they buy still more commodities. Credits therefore *temporarily increase* companies' profits.

Credits Do Not Resolve the Fundamental Contradiction

Even though credits temporarily increase companies' profits, borrowing money as one of the means of competing against other companies on the market and as the decisive means of increasing companies' profits does not *resolve and eliminate* the fundamental contradiction between the purpose of companies (increasing profits) and ways, in which companies try to increase profits. The reason for the fact that credits do not resolve the fundamental contradiction is that the purpose of institutions (mostly states and banks) and individuals who lend money (and financial institutions all operate under constraints of (international) market competition, just as this happens in the real sector) is *the same* as the fundamental purpose of companies who borrow money – that is, making more money out of invested money as much as possible. The process of lending money to companies is such that by borrowing money, companies temporarily avoid consequences of the fundamental contradiction between increasing companies' profits, and ways, in which companies try to increase profits. But because the purpose of lending money is also to increase profits, it is *necessarily* so that lenders of money in a particular moment claim repayment of principal and interests. And when a general claim for profitable repayment of loans appears (it is impossible to predict when exactly this will actually happen), and when the amount of available and affordable loans starts to decrease generally, it becomes evident that the contradiction between increasing profits and necessary ways in which companies try to increase profits, is *still* in force. Credits are therefore the *decisive* means of increasing companies' profits, while general lack of credits *triggers/executes necessary consequences* of the fundamental contradiction between increasing companies' profits and ways in which companies try to increase profits (see Decker 2002; Dozekal 2009).

Consequences of the Fundamental Contradiction: A Crisis

A consequence of this fundamental contradiction, triggered by a general lack of credits, is that companies have produced and offered on the market *too many* commodities, which cannot be profitably sold. Thus, a consequence of this contradiction is that there is *not enough* purchasing power, which could purchase all commodities on the market and could thereby increase companies' profits. This implies that there remain *unsold* commodities that pile up in stores and warehouses (some of the commodities thereby lose their use value). This further implies that companies' profits really start to generally *decrease* – this does not mean that each and every company books losses (there are and really can be few companies and individuals who actually make profits in the time of general decreasing of profits and trade – just as there are and really can be few companies which go bankrupt in a time of general increasing of profits, in a time of GDP growth). And when companies' profits generally start to decrease, companies then *decrease prices* of their unsold commodities in order to sell them, and therefore to compensate for at least *some* of the costs that were necessary for production and marketing of these commodities. When some commodities then still remain unsold (because of the insufficient purchasing power), companies *never simply give* these commodities to people that might need these commodities, but do not have *enough money to buy* them.

A consequence of decreasing of companies' profits is that companies reduce their production costs *still more* and as fast as possible, which means that they *close down* some of their production facilities, they decrease workers' wages (increase in poverty), they dismiss some workers (increase in poverty) and they lower prices of suppliers' commodities still more. Companies do that in order to *increase profits again.* The fundamental and predominating purpose of companies (increasing profits) is *necessarily always present* – when profits actually increase as well as when profits actually decrease. A consequence of decreasing of companies' profits is also that some companies actually go bankrupt and disappear from the market.

All these necessary consequences of the fundamental contradiction between increasing profits and ways in which companies try to increase profits, triggered by a general lack of credits, are known as a crisis in capitalism. A crisis means that GDP, trade, profits, wages, employment generally decrease and that poverty generally increases. And why does this happen? The reason for a crisis in capitalism is *not* a general lack of credits, because general lack of credits only executes consequences of the fundamental contradiction between increasing profits and ways in which companies try to increase profits. A reason for crises in capitalism *is* therefore really the fundamental contradiction between increasing profits and ways in which companies try to increase profits. GDP, trade, profits, wages, employment decrease and poverty increases, *because* the principles of making profit in capitalism include this fundamental contradiction. GDP, trade, profits, wages, employment decrease and poverty increases as a consequence of how capitalism functions, a crisis is a necessary consequence of capitalistic principles that are in force.

What Happens after a Crisis?

When enough companies go bankrupt and disappear from the market, when labour prices (wages) and prices of suppliers' commodities are low enough, when enough new credits are available, and when the state (institution that *enforces and provides conditions* for increasing companies' profits for the purpose of achieving GDP growth) with its economic measures sufficiently increases demand for companies' commodities, so when conditions for increasing companies' profits again appear (it is impossible to predict when exactly this will actually happen), then by means of getting new credits companies *start again* investing in new production capabilities, employing additional workers, increasing productivity of their means of production, developing new or improved commodities, increasing the amount of produced commodities, and consequentially increasing sales of their commodities and thereby increasing profits (e. g. this is how Shell plans to restore its profitability), until lending money to companies and buyers *stops again,* when it becomes evident *again* that the fundamental contradiction between increasing profits and ways, in which companies try to increase profits, is *still* in force.

The Present Crisis: An Appearing Form of a Crisis in Capitalism

During 2008, three of the largest US investment banks either went bankrupt (Lehman Brothers) or were sold at fire sale prices to other banks (Bear Stearns and Merrill Lynch), values of shares on American stock exchanges significantly decreased. Consequentially, values of assets of European banks and values of shares on European stock exchanges also decreased. Values of assets of many investment funds decreased. Decrease in value of assets in the financial sector caused general lack of credits for companies: there was a general collapse in confidence and readiness of investors to further take risky financial investments. Because of the inability of companies as well as buyers of their commodities (other companies, workers, other institutions) to get new loans, consequences of the fundamental contradiction between increasing profits and ways in which companies try to increase profits, broke out. Because there were not enough new credits available, commodities that companies offered on the market remained unsold (e. g. there is abundance of unsold cars in the EU, Toyota stores unsold cars aboard ship). It became evident that companies had produced too many commodities, which could not be profitably sold. A consequence of this was that profits of (world's largest) companies started to decrease significantly (e. g. Daimler AG, BMW, Toyota, Ford, General Motors, Chrysler, Sony, Hitachi, Lm Ericsson AB, Nokia, Royal Bank of Scotland, AIG, UBS AG, Lloyds Banking Group and many other large (and small) companies all booked huge or even record sales decreases and profit losses between October 2008 and August 2009.). Companies reacted to this by rapidly starting to reduce production costs (e. g. one of the crucial measures of how to restore profitability of Shell, General Motors, Chrysler, is rationalization, that is, general cost reduction, where production and labour costs are included) – closing down some of their production facilities (e. g. Sony planned to close 10% of its manufacturing facilities), decreasing wages of workers,[7] dismissing some workers (e. g. Sony 8.000 workers, Dell 905 workers, thousands of jobs cuts have been announced across all sectors of the UK economy), lowering prices of suppliers' commodities. Some companies simply went bankrupt because of the inability to get new or additional loans. And finally, because of increasingly expensive loans and because of the reduced amount of available loans, production globally decreased, and consequentially international trade and GDP (growth) worldwide also decreased. What happens now is that by means of lending (or simply giving) money to banks and other institutions, states try to increase the amount of money, which is available for lending to companies and to buyers of companies' commodities, in order to *restore conditions* for increasing companies' profits (some states also decrease taxes or increase public demand).

The present crisis has thus shown all the necessary consequences of the fundamental contradiction between the dominating purpose of companies (increasing profits, measured in monetary units) and necessary ways, in which companies try to increase profits. The present crisis has been just one of the appearing forms of a crisis in capitalism and the present crisis has been a necessary consequence of capitalistic principles that are globally predominately in force. Referring to Burns and Mitchell (1946), we can conclude that between October 2008 and the 3rd quarter of 2009 GDP, trade, profits, wages, employment generally decreased and poverty generally increased, because of the way capitalism functions, and the purpose of this paper was to prove this.

Conclusions

The most important data, that are available to us, show that between the 2nd quarter of 2008 and the 3rd quarter of 2009, there was a global decrease in GDP, trade, profits, wages, employment and global increase in poverty. These phenomena combined are known as an economic crisis and this crisis has been just one of the appearing forms of a crisis in capitalism. I tried to scientifically explain facts (data) on the present state of the global economy (predominately organized in a capitalistic manner) by proving that the present economic crisis necessarily follows from the principles/laws of the present global economy (capitalism).[8] I tried to prove that the reason for profits, trade, wages, employment decrease and poverty increase is the fundamental contradiction between the fundamental and predominating purpose of companies (increasing profits) and ways in which companies try to increase profits (lowering prices of suppliers' commodities, increasing productivity of means of production and labour, reducing labour costs, developing new or improved commodities, increasing the amount of commodities offered/sold on the market, lowering prices of commodities offered on the market). Companies temporarily avoid consequences of this fundamental contradiction by using credits as the decisive means of increasing profits. But when the moment of general claim for repaying principal and interests necessarily appears, it becomes evident that the fundamental contradiction is still in force, and consequences of this fundamental contradiction necessarily appear (crisis).

The contradiction between the fundamental purpose of companies (increasing profits) and ways, in which companies try to increase profits, is in the present global economy *necessarily and always present*. Companies cannot increase their profits other than by unconditionally and constantly increasing productivity of their means of production and labour, by increasing the amount of commodities, offered on the market, by lowering prices of commodities, offered on the market, by constantly developing new or improved commodities, by reducing labour costs (wages) and by lowering prices of suppliers' commodities (suppliers themselves do exactly the same as companies to which they sell their commodities). Market competition/struggle constantly forces companies to do that. And finally, market competition forces companies to recognise that their fundamental purpose is increasing profits, because only by (potentially) increasing profits can companies get credits, by means of which they constantly increase productivity of their means of production and labour (and develop new or improved commodities), through which they compete against their competitors on the market, and which ensures them survival on the market.[9] The real state of the present global economy is that there are *too many* sources of wealth (means of production and commodities) and too many *people* (from the viewpoint of companies) *at the same time.* The present global society suffers because there are, not not enough, but too many sources of wealth and commodities, measured against the *purpose* of private owners of these 'too many' – and that is, to profitably use these forms of wealth.

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Notes

1. For a detailed critique of how economist Joseph Stiglitz, OECD economists and IMF economists attempted to explain the last financial/economic crisis when it broke out, see Štrukelj (2010).
2. Although there are many different (empirical) definitions of poverty (the most known is The World Bank definition), I propose to explain poverty as an exclusion from the existing sources of wealth (means of production) in a particular society.
3. Burns and Mitchell were directors of the National Bureau of Economic Research (NBER), which is the largest economic research organization in the United States. Sixteen of the thirty-one American winners of the Nobel Prize in Economics have been NBER associates. The NBER first organized a system of national accounts in 1930, which was the beginning of the official measurement of GDP and other related indices of economic activity.
4. For a detailed critique of predominating 'mathematization' methodology in economics, see Štrukelj (2011).

5. In the present global economy, there are also some institutions (e.g. NGOs, voluntary associations, charities, state administrations), whose purpose is not to increase profits. However, the existence and functioning of these institutions *depend* on how well companies (both in the financial and in the real sector) increase profits and how well GDP therefore grows in a particular state or group of states. For non-profit institutions, as well as for profit institutions, money is the decisive means of operating, since a great majority of people today live in a money-profit economy.
6. Market competition is based on *private property of means of production and commodities*. This private property is *enforced and protected by the state through law*. States also engage themselves in *global competition* against each other. GDP growth and competitiveness are fundamental and predominating purposes of states, upon which the (quality of) lives of all their citizens *depend*.
7. Based on IMF growth figures, ILO predicted that the global growth in real wages would be maximally 1.1% in 2009, compared to 1.7% in 2008, but wages of millions of workers were expected to *decrease in many countries,* including major economies, in 2009. Globally, wage growth in industrialized countries was expected to decrease, from 0.8% in 2008 to –0.5% in 2009. This followed a decade in which GDP in these countries was increasing *much more than* wages. ILO Director-General Juan Somavia expects *difficult* times for wage-earners. Slow or negative GDP growth, combined with highly volatile food and energy prices, will *erode the real wages* of many workers, particularly the low-wage and poorer households. The middle classes will *also* be seriously affected. Tensions and conflicts are likely to *intensify* over wages (ILO 2008). In 2009, a 10% decrease in remittances was expected – a *big* number in countries that rely heavily upon them. Such decrease in remittances could mean *significant hardships* for, particularly, the poor people, and also for the governments that depend on the foreign currency that comes in (The World Bank 2009a).
8. Due to the officially prescribed limits for this paper, I provide only a summary explanation of an economic crisis. However, all arguments in the paper can be further developed and proven, and also more variously illustrated. Also, there are many convincing and well proven explanations of recent financial crises, of credit, of money, of poverty, of competition, and of capitalism in general, which are not present here, yet they are in different ways connected to the explanation, proposed in this paper. All things considered, this paper should serve as an introductory scientific analysis of crises in capitalism.

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